

## Message Text

CONFIDENTIAL

PAGE 01 JIDDA 01697 030642Z

ACTION EB-08

INFO OCT-01 EUR-12 EA-07 NEA-10 ISO-00 ERDA-05 AID-05  
CEA-01 CIAE-00 COME-00 DODE-00 FEAE-00 FPC-01 H-01  
INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04  
USIA-06 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07  
/116 W

-----031254 127698 /41

R 021503Z MAR 77

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 7487

INFO AMEMBASSY ABU DHABI

AMEMBASSY BONN

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

C O N F I D E N T I A L JIDDA 1697

E.O. 11652: GDS

TAGS: ENRG, SA, IR

SUBJ: THE OIL PRICE WAR

REF: TEHRAN 1838 (NOTAL)

1. SAUDI PRESS HAS RESPONDED TO IRANIAN ALLEGATIONS  
THAT SAUDI OIL IS BEING SOLD ABOVE OFFICIAL SAG  
MARKER PRICE WITH SCOFFING NOISES, IMPLYING THAT ANY  
PRICES HIGHER THAN \$12.09 ARE DUE TO CONFUSION OF  
GRADES, QUALITY OR TRANSPORTATION FACTORS, ETC. WE  
ARE NOT ALL THAT SURE, HOWEVER, THAT AMOUZEGAR MAY  
NOT BE AT LEAST PARTIALLY CORRECT.

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2. THE FLIES HAVE BEEN GATHERING AROUND THE HONEYPOT  
HERE SINCE JAN 1; THE POTENTIAL FOR GAIN WHEN SAUDI  
OIL IS SELLING OVER 60 CENTS BELOW COMPETING GRADES  
IS ALL TOO OBVIOUS AND PROSPECTIVE CUSTOMERS ARE NOT  
LACKING. PETROMIN'S CONCERNS THAT IT COULD NOT HANDLE  
THE PRESSURE OF THESE POTENTIAL BUYERS LED IT TO ANNOUNCE

ITS POLICY OF PASSING THE INCREMENTS OF NEW PRODUCTION THROUGH THE ARAMCO PARENTS RATHER THAN MARKETING THEM DIRECTLY. BUT PETROMIN HAS CLEARLY NOT GIVEN THE COMPANIES A FREE HAND IN THIS; ALTHOUGH IT CONTINUES TO DENY PRESS REPORTS THAT IT IS MATCHING ARAMCO PARENTS TO PROSPECTIVE BUYERS, ALL INDICATIONS ARE THAT PETROMIN IS PLAYING AT LEAST SOME ROLE IN THE NEGOTIATIONS FOR INCREMENTAL SALES. ACCORDING TO ONE (NON-SAUDI) SOURCE, PETROMIN WILL IN FACT BE SELLING OR ARRANGING SALE OF OVER HALF OF THE FIRST MILLION BARRELS/DAY OF INCREMENTAL PRODUCTION.

3. THE SAUDI GAZETTE REPORTED MARCH 1 THAT ITALY'S ENI IS CLOSE TO CONCLUDING A DEAL FOR 5 MILLION TONS PER YEAR WITH PETROMIN. ENI'S PRESIDENT VISITED HERE LAST WEEK, ACCOMPANYING FOREIGN TRADE MINISTER OSSOLA, AND WE ASSUME THAT OIL NEGOTIATIONS DID TAKE PLACE, ALTHOUGH THE ITALIAN EMBASSY DENIES ANY KNOWLEDGE OF AN IMPENDING DEAL. IN SUCH A NEGOTIATION WITH PETROMIN, IT WOULD NOT BE UNTHINKABLE THAT A COMMISSION ABOVE THE MARKER PRICE BE DISCUSSED, EVEN IF THE OIL ITSELF MIGHT NOMINALLY BE SOLD AT THE MARKER. THE MARGIN IS TOO GREAT TO IGNORE, AND THIS IS SAUDI ARABIA. PERHAPS AMOUZEGAR WAS TRYING TO PUT THE CAT AMONG THE PIGEONS WHEN HE STATED THAT HE HAS "NO IDEA WHO IS POCKETING THE DIFFERENCE." THE IRANIANS SEEM OUT TO GET YAMANI.

4. WE SHOULD EMPHASIZE THAT WE BELIEVE THE VAST  
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MAJORITY OF SALES ARE NOW BEING MADE BY THE ARAMCO PARENTS AT THE MARKER PRICE. BUT SOME SALES, IF ARRANGED THROUGH PETROMIN, MAY WELL BE PASSED THROUGH THE PARENT COMPANIES, AT MARKER PRICE, BUT AT A HIGHER REAL COST BECAUSE OF HIDDEN COMMISSIONS.  
PORTER

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NNN

## Message Attributes

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**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
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**Review Markings:**  
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